Family Office Horizons
June 2023

Beyond resilience:
Is anti-fragility a realistic next step?

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The world's geo-political, health and economic dynamics are constantly changing, shocks to business systems seem to have become quotidian in nature with resilience seen as the foundational coping mechanism.

Family Offices should be well positioned to move beyond being resilient organisations, and should aim to set themselves up for success in the face of adversity able, thus reaching a state of anti-fragility.

This article explores how family offices can develop and aim to move beyond resilience.

Family offices are extensions of the families they serve:

Whilst unique in their nature and shape, they provide an infrastructure around the individual wealth holders. Logic dictates that as the family members evolve and change, so does the organisation that serves them and their interests. So how do these organisations behave when faced with (r)evolutionary challenges and how can they use resilience to prevail?

Family offices often begin as small, principal-led entities and focus on the financial and social aspects of the family's needs. In fact, many of them are initially set up to serve a return-based purpose such as wealth preservation, growth or a combination of both following a wealth event such as a business exit or a family member passing away. In time, and with new family stakeholders, family offices often evolve to become more professionalised operations where robustness and stability become fundamentals for coping with larger scale operations.

Wealthy industrialists such as the Rockefellers and the House of Morgan created support systems around their vast fortunes back in the 19th century, coining the terminology for Family Offices. Whilst the descriptor used for such infrastructures may have been slightly retrofitted, they continue to survive, having managed to overcome decades of economic turmoil. The same can be said about many of the succeeding purpose-built family offices, such as those of the Gates and the Brenninkmeijer families.

In fact, Campden Wealth and Bloomberg[1] estimate a staggering figure, in excess of $6 trillion in assets, is managed by family offices as of 2022. This amount comfortably exceeds levels held by hedge funds across the world. So what role is resilience playing in supporting these results and indeed, the survival of family offices that hold this trait at their strategic core?

[1] Inside the Secretive World of Family Offices That Manage Billionaire Fortunes - Bloomberg

What is resilience and what does it do in a business context?

Put simply, resilience is the ability to cope with and recover from distress. Within businesses it can encompass a myriad of aspects linked to strategy, finance and operations.

Interestingly, there is a World Economic Forum Resilience Consortium that "endorses the strategic view of resilience and emphasizes the long-term ability of organizations and economies to create the capabilities needed to deal with disruptions, withstand the shocks, and continuously adapt as disruptions and crises arise over time. It is the strategic prerequisite for long-term, sustainable, and inclusive growth." [2]

In short, resilience matters. It matters for economies and it matters for business owners and their family offices. There is much field research suggesting that businesses and family offices focused on resilience thrive in times of crisis and there are many such examples of businesses and family offices that pivoted successfully during COVID into new (and sometimes revolutionary) products and markets. The goal is for resilience to become strategically embedded within a family office, rather than a pre-crisis, short-term approach to dealing with stressors.

Long-termism in family offices:

Whilst no two family offices are identical, they are typically established with a clear purpose and long-term horizon. Take the fairly common example of a first generation entrepreneur who after exiting his / her business establishes a family office structure in order to manage the newly created wealth and preserve it for future generations. The word to emphasise here is "generations" – and whilst for some it may be two and for others it may be four or five, it is the use of plural one should focus on.

This case is consistent with industry findings – "Family offices do not think in five or 10-year fund cycles. Instead they are looking at preserving and growing capital for generations and so the time horizon is more likely to be 50 or 100 years"[3] . This long-termism displayed by many family office principals requires a robust strategy and flexibility in approach, and ultimately, resilience. Considering how much has changed globally over the past five years, one cannot fathom the next 100.

However, whilst good organisational resilience can help a family office navigate tumultuous waters, it is not a guarantor for success and should not be regarded in isolation. There are many other ingredients in the recipe for organisational endurance, missed out by a number of family offices that unfortunately fail in their race for survival. Interestingly, whilst a recent article reveals that the oldest continuously surviving single-family office in the world is only c. 80 years old[4], most single family offices active at present have been established in 2000 and later. [5] This raises the question as to whether longevity is really on the cards for all.

The link between resilience and anti-fragility:

"Some things benefit from shocks; they thrive and grow when exposed to volatility, randomness, disorder, and stressors and love adventure, risk, and uncertainty. Yet, in spite of the ubiquity of the phenomenon, there is no word for the exact opposite of fragile. Let us call it anti-fragile. Antifragility is beyond resilience or robustness. The resilient resists shocks and stays the same; the anti-fragile gets better." (Taleb, 2012).

[2] Resilience, sustainability, and inclusive growth | McKinsey

[3] What challenges do family offices face? - FTAdviser

[4] The world's oldest single family office is 79 yrs old. What does it say about the sector? | Family Capital (famcap.com)

[5] Is Your Family Office Built for the Future? (hbr.org)

An anti-fragile organisation is one that thrives from non-linear and volatile events; anything that has more upside than downside from random events (or certain shocks) is anti-fragile; the reverse is fragile.

Some (but not all) family offices have adapted and evolved since their establishment by not only dealing with, but thriving from the multiple challenges faced. With new family members reaching adult age, new family interests brought about by marriages, new geographies to serve, family members crossing borders, and new sustainability focused investments; these are only a few of the myriad of stimuli that family offices are faced with. Whilst a level of anti-fragility (i.e. ad-hoc positive reactions to change) can be observed in some instances, it is perhaps a case of resilience supported by good governance and risk management that can often support success.

In addition, the concept of anti-fragility is potentially a tool for looking at how family offices and family businesses can cope and respond in times of crisis. As they often start small and agile, these types of organisational forms sacrifice short-term profitability for long-term success and welcome unpredictability, which in turn can make them more accustomed to prolonged, milder shocks to the system that prepares them for later stronger ones. This approach typically showcases in-built flexibility and nimbleness over rigidity and strenuous process. However, with no process, how can new stakeholders learn from the past to understand the present and manage the future?

Should family offices aim to be more anti-fragile?

Responding positively to crises and major disruptions is what anti-fragile organisations do. They strive to find innovative and timely solutions to challenges. Instead of following rigid command structures, the teams have the dexterity to make sharp decisions around wider business areas. However, this agility needs to be supported by a clearly articulated purpose, robust investment, governance and risk management processes and more. The ability to respond quickly needs to be rooted in a lengthy, in-advance thinking process to enable it in the first place.

With many family offices evolving from single-principal, trust-based governance structures to a more professionalised set-up, with multiple stakeholders, some basic parameters for governance are key. Robustness does not have to mean rigidity and having simple processes and guidelines in place can be transformative when it comes to smooth operations and organisational success (read more about Family Office Governance here).

As for where one should sit on the anti-fragility spectrum (see Fig 1), this will depend on the essence and purpose of the family office – a fast growing family office aiming to invest in new business is likely to sit in a different space to one that has been protecting legacies for decades. Yet, if it wishes to survive and evolve to the point where it can build a legacy, it may well need to move closer to the mid-point.

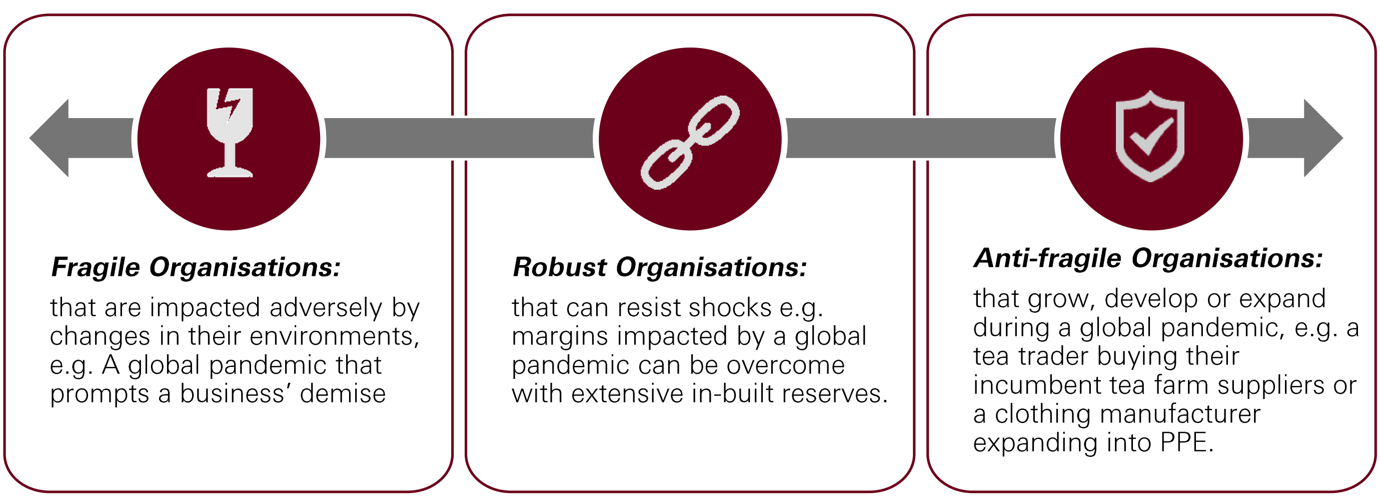

Fig 1. The Spectrum of Anti-Fragility in business

Closing comments:

Surviving challenging times is unlikely to be easy; businesses that gain from volatility and change will thrive, whereas those that are hindered by it will likely disappear. Many will sit in the middle.

Whilst anti-fragility may seem like a farfetched concept for some, building resilience is a well-trodden path and its benefits wide-reaching in future-proofing businesses and family offices alike. One does not need to re-invent the strategic wheel. Building a purpose-led family office, developing a flexible governance and operational infrastructure, supported by taking advice in times of uncertainty are all sensible guidelines.

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